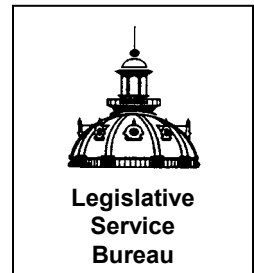


LEGISLATIVE GUIDE TO BASIC IOWA EDUCATION FINANCE



Note to Reader:

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I. Introduction to Iowa Education Finance.

A. Purpose of Legislative Guide.

This Legislative Guide examines education finance in Iowa by combining discussions of the various components of the finance formula with a series of examples. The Guide is intended to accomplish three primary objectives:

- To serve as an introduction to education finance in Iowa and to set out the fundamental principles involved.
- To provide a starting point for follow-up research in an area of particular interest or relevance.
- To debunk the myth that education finance is a complex web of technical jargon and mathematical formulas best left to experts. While certain aspects of the formula do involve sophisticated concepts and calculations, a basic understanding of the formula and how the various components interrelate is attainable.

The sources used for this Legislative Guide are current as of November 2002. Code references are to the 2003 Iowa Code. A glossary of some of the most important school financial terms is contained in the appendix of this Guide.

B. Putting Iowa Education Finance in Perspective.

Financing Iowa's system of primary and secondary public education involves a balance between competing interests. On the one hand, providing high-quality public education is a consistent top priority in public opinion surveys, and Iowa's reputation of academic excellence and national ranking at or near the top in test scores is a frequently cited source of state pride. On the other hand, financing this system of high-quality public education in an adequate and equitable fashion is subject to widely differing opinion. While most Iowans agree on high educational standards, affording them is a matter of considerable debate.

Resolving these competing interests in a manner acceptable to the majority of Iowans presents philosophical, technical, and political issues. Philosophically, there is general agreement that the objectives of an effective school finance mechanism are to provide equity, adequacy, local control and accountability, and efficiency.¹ The goals of the state school finance formula are to equalize educational opportunity, to provide a good education for all the children of Iowa, to provide property tax relief, to decrease the percentage of school costs paid from property taxes, and to provide reasonable control of school costs.²

¹ Augenblick & Myers, Supporting Materials, Education Finance 101, National Conference of State Legislatures School Finance Seminar (Feb. 23, 1996).

² Iowa Code § 257.31(10).



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Technically, these identified objectives must be able to be defined and measured.³ Equity, adequacy, and efficiency vary across, and between, school districts. A formula allocation procedure and the parameters which apply to it must be created and set.⁴ This involves considerations such as defining the basic level of support for each pupil and the basic level of state financial assistance, determining "special" categories of pupils, needs, and programs, and measuring local fiscal capacity to contribute in the form of property, income, and sales taxation.⁵

From a political standpoint, determining how much money is available, weighing the impact of alternative approaches to education finance, and controlling spending and taxation can generate a significant volume of legislation each session. While by no means a comprehensive list, representative issues arising during recent legislative sessions have included:

- equalizing spending per pupil,
- adjusting for districts with increasing enrollment,
- maintaining and adapting budget guarantees,
- determining growth in cost per pupil from one year to the next,
- providing equitable funding of transportation costs,
- defining the role and funding of area education agencies,
- minimizing property taxes,
- integrating technology into Iowa schools,
- adjusting special education classification and funding,
- determining at-risk student classification and funding,
- determining foundation level adequacy,
- authorizing permissible school fees,
- addressing school infrastructure concerns,
- gifted and talented funding,
- teacher compensation.

³ Augenblick & Myers, Supporting Materials, Education Finance 101, National Conference of State Legislatures School Finance Seminar (Feb. 23, 1996).

⁴ Id.

⁵ Id.



Figure 1 provides a list of criteria for determining the extent to which the goals and objectives of a school finance formula may be realized.⁶

Figure 1
HOW DO YOU KNOW A "GOOD" SCHOOL FINANCE SYSTEM WHEN YOU SEE ONE?

- 1) The allocation of state aid is sensitive to the needs of school districts.
- 2) The allocation of state aid is sensitive to the wealth of school districts.
- 3) The allocation of state aid is sensitive to the tax effort made by school districts.
- 4) The variation in spending among school districts can be explained primarily by differences in their needs and tax effort.
- 5) School districts have a reasonable amount of flexibility to determine how much they want to spend (not unlimited flexibility) and all districts have the same opportunity to generate revenues at the levels they select.
- 6) School districts have reasonable flexibility to spend funds.
- 7) All types of expenditures are considered by the school finance system, including operating, capital/debt, and personnel benefits.
- 8) State aid that is not sensitive to wealth or need (for example, incentive funds or hold harmless funds) is limited.
- 9) Taxpayers are treated equitably:
 - Property is assessed uniformly.
 - Low-income taxpayers are relieved of some of the obligation to pay property taxes.
 - The burden of paying for schools is shared equitably among homeowners and businesses.
- 10) The state has established a procedure to define and measure equity and periodically assesses how equitable the school finance system is.

These philosophical, technical, and political considerations continue to impact Iowa's education finance system. The present method incorporating uniform levy, state foundation percentage level, and additional property tax formula components dates back to the early 1970s, but has been subject to ongoing modification based upon the changing needs and circumstances facing school districts in Iowa. The modifications have involved property tax relief, equalized per pupil expenditures, enrollment fluctuation adjustments, legislative determination of budget growth rather than via formula, enhanced local authority, and an increased state foundation percentage level. The present version of the formula is subject to a periodic legislative review process. Legislation enacted during the 2000 Legislative Session provided for legislative review based on recommendations contained in a legislative interim study committee status report prepared with the assistance of the Departments of Education, Revenue and Finance, and Management. The first report is to be submitted to the General Assembly by January 1, 2005, with subsequent

⁶Id.



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reports submitted at least every five years thereafter.⁷ Previously, the formula was subject to a sunset provision effective July 1, 2001.⁸

II. Executive Summary – Iowa Education Finance in a Nutshell.

Prior to a detailed examination of each component of Iowa school finance, an overview of the basic concepts involved in the operation of the formula will be provided.

Iowa's system of public education is financed through a combination of state assistance and local school district funding. The state contributes financial assistance under the foundation formula up to a specified percentage of a state cost per pupil calculation. This specified percentage is referred to as the state foundation level. The local school district contributes the bulk of its portion of school financing in the form of property taxes. A flat property tax levy, called the "uniform levy," is the floor level of local school district assistance, imposed upon taxable real property located within the district. Above this amount, the state contributes aid up to the foundation level. Funding beyond the foundation level necessary to cover the school district's costs for a given year takes the form of an additional levy of property tax.

It is the relationship between the uniform levy and the state foundation level which contributes to the equalization of money available between high taxable property value districts and lower taxable property value districts. The higher the amount generated by the uniform levy in a district, the lower the level of state foundation aid, and vice versa, resulting in a lower taxable property value district receiving a comparatively larger amount of state foundation aid.

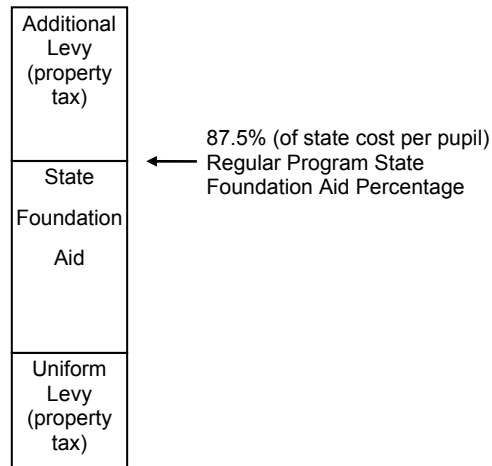
Applying the state foundation level, uniform levy, and additional levy to a particular school district involves a district cost per pupil calculation. District cost per pupil is based on the historical spending per pupil in a school district plus a per pupil growth amount. This growth figure is called "allowable growth," and in recent years has been annually determined two years in advance by the Legislature. The district cost per pupil, plus allowable growth, is multiplied by a district's enrollment to arrive at the district cost. Enrollment, for this purpose, is adjusted, or "weighted," to accomplish various objectives or provide funding for certain programs, such that the weighted enrollment number arrived at is generally a different number than the actual headcount of students enrolled in the district. The uniform levy, state foundation aid, and additional levy in each district combine to fund the district cost per pupil amount. Figure 2 illustrates these three components.

⁷ Iowa Code § 257.1(4).

⁸ 1989 Iowa Acts ch. 135, § 135.



Figure 2
Primary Funding Components



The school finance formula not only determines the state foundation aid a district receives, but also serves as a budget limitation device. A district's minimum district cost per pupil will not be lower than the state cost per pupil amount, and its maximum district cost per pupil shall not exceed 105 percent of the state cost per pupil.

Beyond the general scheme set out above, a number of provisions for additional moneys exist to take into account the particular problems, challenges, or special needs of a given school district. Examples include School Budget Review Committee assistance, additional property tax levies for specified purposes, minimum budget guarantees, school district income surtaxes, school fees, and a local option sales tax for school infrastructure purposes.

This executive summary presents a simplified version of the basic structure of education finance in Iowa. The remainder of this Guide is divided into three primary sections: the components of combined district cost, the three primary sources of revenue generation, and an appendix listing additional sources of revenue, funding needs and approaches, and a glossary of terms.

III. Determining the Financial Needs of a School District.

The first step in an analysis of education finance in Iowa involves an examination of the factors comprising a school district's budget needs and spending authority in a given year. These include enrollment and state and district cost per pupil calculations.

A. Enrollment.

The education finance formula is pupil-driven. The number of pupils enrolled in a district forms the basis for calculating state and district costs per pupil. While the number of pupils enrolled may seem obvious, a distinction is drawn between the actual number of pupils enrolled in a district — the "headcount" — and a "weighted headcount" adjusted to reflect the increased costs associated with providing services



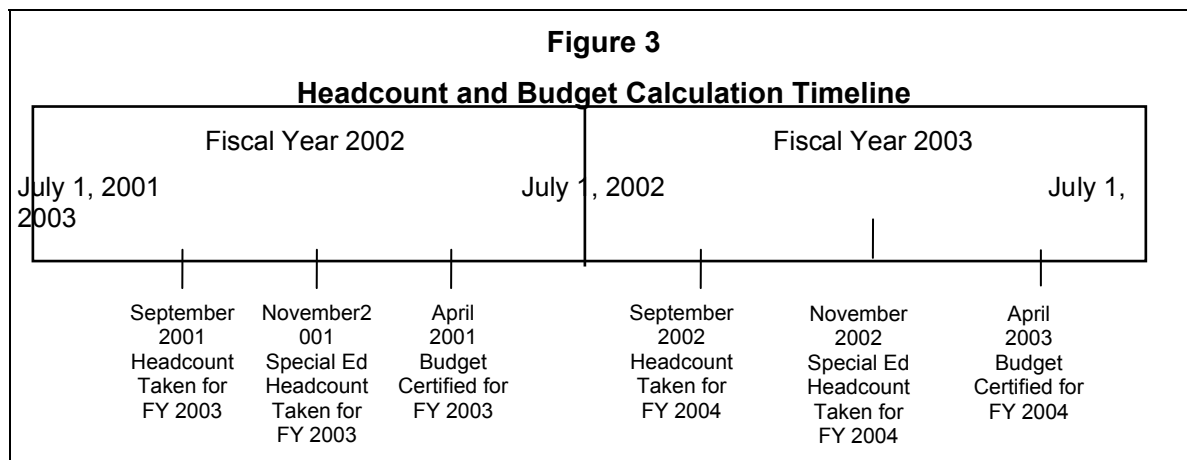
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to special education students or to facilitate the funding of additional programs and services.

1. Headcount.

The starting point in determining enrollment is calculating the actual number of pupils enrolled in a school district on the third Friday of September in a given year.⁹ This date is important. Pupils moving out of a district prior to the third Friday in September, or those entering after that date, will generally not qualify as "enrolled" for budget calculation purposes for the next following school year (commencing July 1 and ending the following June 30).

The enrollment counted in a particular year impacts the next school year's district cost calculations. The actual enrollment used in calculating a school district's budget is the enrollment count taken on the third Friday during the preceding September. It should be noted that the applicable terminology can be confusing. A school district's budget for a school year is calculated and certified prior to the beginning of that school year and it is based on the budget of the prior year. Therefore, the year in which the calculations are completed and the budget is certified is called the "base" year.¹⁰ During the calculation and certification process, that next following school year is called the "budget" year.¹¹ School districts operate on a fiscal year basis — from July 1 through June 30 annually.¹² Figure 3 contains a timeline of budget calculation dates.



Example: The actual headcount of students enrolled on the third Friday in September 2001 in District A was 4,500 and in District B was 450. A major manufacturing plant in District A relocated to District B the previous April, opening for business November 1. Three hundred

⁹ Iowa Code § 257.6.

¹⁰ Iowa Code §§ 257.2(2), 257.6(2).

¹¹ Iowa Code §§ 257.2(4), 257.6(4).

¹² Iowa Code § 257.1(1).



fifty students relocated with their families from District A to District B so that family members may continue employment at the relocated plant, with the result that on November 1, 2001, the headcount in District A had fallen to 4,150, while the headcount in District B had risen to 800.

What is the actual enrollment count used in each district for fiscal year 2003 budget calculation purposes? The September headcounts will be used, despite a significant subsequent decrease in District A and increase in District B and despite the fact that the count impacts future, rather than the current, school district budgets.

For what budget period will the headcounts be applicable? The September 2001 headcount will be used for budget calculation purposes for the 2002-2003 school year. Note that the budget for the 2001-2002 school year is not directly impacted by the relocation, having been determined by the headcounts taken in September 2000.

The fact that enrollment figures from the preceding school year are utilized for the current school year's budget presents a problem for school districts experiencing enrollment increases. While the district has an immediate funding need to cover the education costs of the additional pupils, as discussed above, funding is based on the previous year's enrollment figures.

This dilemma triggered legislation designed to advance funds to districts when the district's current enrollment exceeded the enrollment for which the budget was certified. Until the early 1990s, Iowa's system included a provision that allowed those districts whose headcount increased from one September to the next to receive additional funds (called an advance) during the same year in which the students enrolled (one year in advance of when they would otherwise have been included in the enrollment).¹³ The advance payment was all state aid for that year and an adjustment was made to state foundation aid and property tax levels the year following the advance to compensate for the advance.

Legislation enacted in 1999 provided on-time funding for a one-year period. For the school budget year beginning July 1, 1999, school districts could submit a request to the School Budget Review Committee for on-time funding for new students. If approved, the funding was in an amount of up to the product of the state cost per pupil for the budget year multiplied by the enrollment increase (actual enrollment minus budget enrollment) for the budget year. The legislation made an appropriation of up to \$4 million to the Department of Education for on-time funding, with proration in the event the appropriation was insufficient to fully fund all requests received by the School Budget Review Committee.¹⁴

The mechanism for providing on-time funding was changed during the 2000 Legislative Session. For the school budget year beginning July 1, 2000, a school district with an actual enrollment for the budget year greater than its

¹³ 1992 Iowa Acts ch. 1230, §§ 12, 14.

¹⁴ 1999 Iowa Acts ch. 2, § 2.



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budget enrollment for the budget year was eligible to receive an on-time funding budget adjustment in the form of a modified allowable growth equal to 50 percent of the difference between the actual and budget enrollment amounts, multiplied by district cost per pupil. For the school budget year beginning July 1, 2001, and succeeding budget years, the budget adjustment was increased to 100 percent of the difference between the actual and budget enrollment amounts, multiplied by district cost per pupil. In order to receive the on-time funding budget adjustment, a school district board of directors must adopt a resolution and notify the School Budget Review Committee by November 1 annually.¹⁵ The concept of allowable growth is addressed in a subsequent section of this Guide.

In order to be included in the September headcount, a pupil must not only be considered enrolled in the school district but must also be a resident of the district on the third Friday in September. Iowa Code section 257.6 contains six classifications of resident pupils. Most commonly encountered would be a student living within the school district on a full-time basis, and either attending classes in that district or another district through open enrollment. (Open enrollment is discussed in the Appendix section of this Guide.) Other classifications involve situations where a student may be attending a community college while of high school age, attending classes on a shared or part-time basis, or finishing the last two years of high school in the district after having relocated the student's residence elsewhere, and these classifications may involve weighting the student to count less than one depending on the classification involved.¹⁶

2. Weighted Enrollment.

For formula purposes, a student may be counted at a value greater than one student if enrolled in a specified program. There are two primary forms of weighted enrollment:

a. Special Education Weighting. Special education students are weighted at a value greater than one to reflect the increased expense involved in providing a special education curriculum.¹⁷ A special education headcount similar to the actual enrollment headcount is conducted, with the distinction that the special education headcount takes place on November 1 annually.¹⁸ It should be noted that prior to the 2001 Legislative Session, the annual headcount date was one month later — December 1. Iowa Code section 256B.9 contains three categories of special education students. The three categories are based upon the severity of the pupils' disability and the educational program required. Weightings for each category are established by a five-member state panel called the School Budget Review Committee and are based upon the

¹⁵ Iowa Code § 257.13.

¹⁶ Iowa Code § 257.6.

¹⁷ Iowa Code § 256B.9(1).

¹⁸ Iowa Code § 257.6(3).



recommendation of the Director of the Department of Education.¹⁹ The weightings may be increased or decreased by the committee by no more than two-tenths of the weighting assigned to pupils in a regular curriculum.²⁰ The weightings currently in effect are .68, 1.35, and 2.74.

Example: District A's actual special education headcount measured on November 1, 2001, was 750. Of this number, 400 fell into the .68 weighting category, 200 in the 1.35 category, and 150 in the 2.74 category. The weighted enrollment for the 750 special education students totals 1,703. This is an effective increase of 953 pupils, and raises the district weighted enrollment as a whole to 5,453.

b. Supplementary Weighting. A second type of weighted enrollment provides additional weighting for students enrolled in a program involving the sharing of one or more classes or teachers between districts or between a district and a community college, and for students enrolled in a non-English-speaking student program. With regard to class or teacher sharing, the additional weighting is prorated to correspond to the proportion of the day a student spends in the shared arrangement.²¹ Students qualifying as limited English proficient may receive supplementary weighting for up to three years.²² The objective behind granting supplementary weighting differs from that of special education. Special education weighting is intended to compensate for increased expenses. The goal of supplementary weighting is to cover increased costs and encourage school districts to offer or share programs and extend services deemed necessary or desirable which might otherwise not be provided.

Iowa Code section 257.11 authorizes supplementary weighting for shared programs or teachers for pupils attending classes in another school district, attending classes in a community college, attending classes taught by a teacher jointly employed by two or more school districts, or attending classes taught by a teacher who is employed by another school district. Until enactment of legislation in the 2000 Legislative Session, the Code did not specify what constitutes "attending classes in a community college," and clarification of this provision was sought in the wake of a variety of differing approaches having been taken by school districts relying on supplementary weighting in the course of providing high school and alternative high school programs. The clarification was also sought in response to an Attorney General Opinion issued in 1998 and to subsequent adoption of administrative rules which restricted supplementary weighting for programs between a school district and a community college to those meeting specified criteria designed to demonstrate that the courses are "community college level" in nature.²³ The legislation enacted in the 2000

¹⁹ Iowa Code § 256B.9(4).

²⁰ Iowa Code § 256B.9(4).

²¹ Iowa Code § 257.11.

²² Iowa Code § 280.4(3).

²³ Op. Iowa Att'y Gen. 98-7-2(L).



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Legislative Session codified provisions corresponding to the administrative rules, establishing criteria that courses must be community college-level in nature, and additionally provided that school districts will receive specified levels of supplementary weighting for at-risk programs and for alternative schools.

The amount of supplementary weighting to be received for at-risk programs and alternative schools is determined partially upon the percentage of pupils enrolled in grades one through six eligible for free and reduced price meals in a school district, and partially upon the budget enrollment of the school district. Amounts received as supplementary weighting for at-risk pupils are to be utilized by a school district to develop or maintain at-risk pupils' programs, which may include alternative school programs.²⁴

Legislation enacted during the 2001 Legislative Session reauthorized the additional supplementary weighting which had previously been available for school districts involved in a reorganization or dissolution of the school district. A school district which enters into a whole grade sharing arrangement and commits to studying the prospect of reorganizing, with the reorganization to take effect on or before July 1, 2006, would be eligible for additional supplementary weighting for a specified time period. Receipt of supplementary weighting for a second year would be conditioned upon submission of information resulting from the study to the School Budget Review Committee indicating progress toward achieving the objective of reorganization. Supplementary weighting would be continued for a specified time period after reorganization if the school district does actually reorganize. The legislation also provides additional supplementary weighting for school districts which join together and establish regional academies. A regional academy would offer advanced-level courses and vocational-technical courses, and could also include a "virtual" academy utilizing distance learning technology. The total amount of supplementary weighting granted for a regional academy would not exceed the equivalent of 15 additional pupils.²⁵

Why is a district's enrollment of such fundamental importance? A school district's spending authority is determined by the number of students enrolled, and an increase in the number of students is the primary mechanism under the basic formula, along with allowable growth (discussed below), for receiving additional funds.

B. State Cost Per Pupil and Allowable Growth.

Once a weighted enrollment figure is calculated, the next step is the calculation of state cost per pupil and district cost per pupil. These determinations are easily confused. They are conceptually similar and involve the same basic calculations, but contribute differently to the operation of the formula. The state cost per pupil calculation is not directly used in the calculation of a district's per pupil cost, but rather

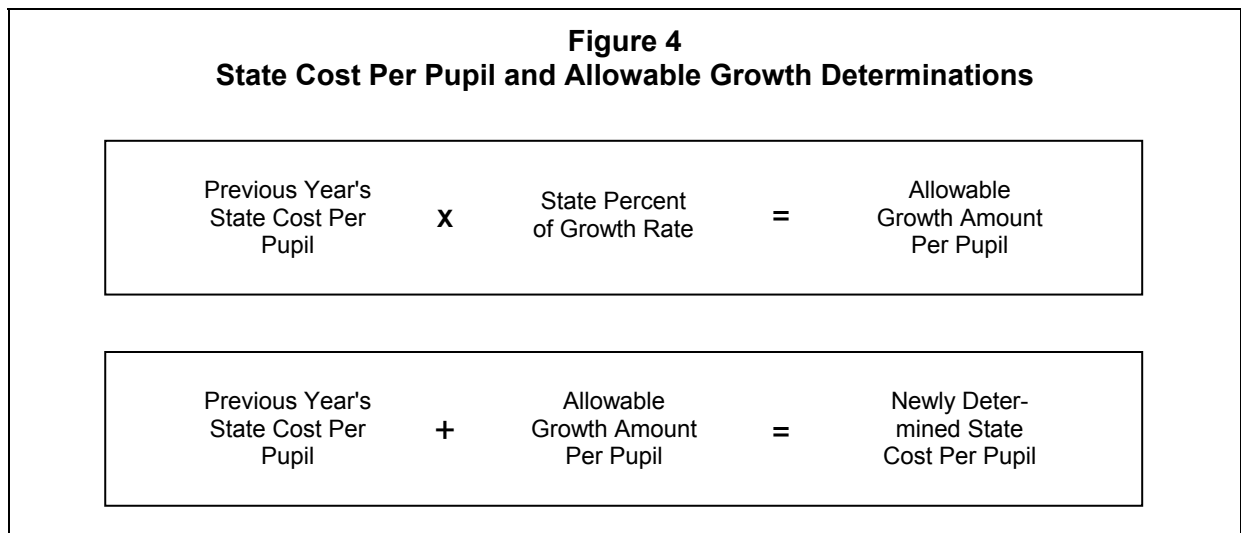
²⁴ Iowa Code § 257.11.

²⁵ Iowa Code §§ 257.11, 257.11A.



indirectly contributes to funding by establishing values for the annual allowable growth and state foundation aid figures.

The state cost per pupil calculation is straightforward, consisting of the previous (base) year's state cost per pupil dollar figure increased by the annual allowable growth dollar figure.²⁶ Allowable growth refers to an amount of state cost per pupil and district cost per pupil which will increase from one year to the next.²⁷ The state percent of growth figure is set annually by the Legislature.²⁸ This determination for a budget year is required to be made within 30 days following the submission of the Governor's budget.²⁹ The state percent of growth is multiplied by the previous year's state cost per pupil to arrive at the allowable growth per pupil dollar value. Adding the allowable growth per pupil dollar value to the previous state cost per pupil figure results in a new state cost per pupil amount. This calculation is illustrated in Figure 4.



Example: The state cost per pupil for fiscal year 2001-2002 was \$4,470. The state percent of growth set by the Legislature for fiscal year 2002-2003 is 1 percent. The allowable growth per pupil for fiscal year 2002-2003 equals \$45, which is obtained by multiplying \$4,470 by 1 percent. When the allowable growth of \$45 is added to the previous year's state cost per pupil, \$4,470, the resulting state cost per pupil for fiscal year 2002-2003 is \$4,515. Note that this allowable growth amount affects the budgets of not only District A and District B in our examples, but all school districts statewide.

²⁶ Iowa Code § 257.9(2).

²⁷ Iowa Code § 257.2(1).

²⁸ An exception was made by the 1996 General Assembly in establishing the state percent of growth for two budget years, those beginning July 1, 1997, and July 1, 1998 (1996 Iowa Acts ch. 1001). Legislative determination replaced a statutory formula as part of state budget reform enacted in 1992 (1992 Iowa Acts ch. 1227, § 15). Allowable growth has been established for the budget year beginning July 1, 2000, at 4 percent (1999 Iowa Acts ch. 1) and for the budget year beginning July 1, 2001, at 4 percent (2000 Iowa Acts ch. 1001).

²⁹ Iowa Code § 257.8.



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It should be noted that among other budget limitation measures adopted in response to an economic downturn, the state percent of growth of 4 percent originally set by the Legislature for fiscal year 2002-2003 was reduced to 1 percent during the 2002 Legislative Session.³⁰

C. District Cost Per Pupil.

As previously stated, state cost per pupil and district cost per pupil contribute differently to the operation of the formula. The state cost per pupil is used to calculate allowable growth per pupil and is the figure to which the state foundation percentage is applied in the calculation of state foundation aid (discussed in a subsequent section). District cost per pupil, on the other hand, reflects the previous district cost per pupil of the individual school district, and is the figure used by the school district to determine the amount it is authorized to spend.

District cost per pupil for each school district is calculated in essentially the same manner as state cost per pupil.³¹ The allowable growth per pupil amount determined using the state cost per pupil calculation is added to a district's previous year's district cost per pupil, as illustrated in Figure 5.

Figure 5
District Cost Per Pupil Determination

Previous Year's District Cost Per Pupil	+	Allowable Growth Per Pupil Amount for the Budget Year (Determined Under the State Cost Per Pupil Calculation)	=	Newly Determined District Cost Per Pupil
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Example: District A's district cost per pupil in the fiscal year 2001-2002 was \$4,556. The fiscal year 2002-2003 district cost per pupil equals \$4,601, calculated by adding the allowable growth per pupil amount of \$45 for the fiscal year 2002-2003 to the previous year's district cost per pupil.

To recap, the regular program district cost for a school district is equal to the regular program district cost per pupil multiplied by the enrollment in the district, and represents its basic funding authorization. Whereas state cost per pupil applies on a statewide basis, district cost per pupil will vary from one school district to the next.

D. Minimum and Maximum Limitations and Budget Guarantee.

Minimum and maximum amount limitations apply to the district cost per pupil. A school district's minimum district cost per pupil for a year is the state cost per pupil for that year. At the other end of the spectrum, a school district with a district cost per pupil exceeding 105 percent of the state cost per pupil is subject to a reduction.³²

³⁰ 2002 Iowa Acts, ch. 1167.

³¹ Iowa Code § 257.10(2)(a).

³² Iowa Code § 257.10(2)(b).



The reduction generally equals 2 percent of the previous year's state cost per pupil, if the current year's state percent of growth percentage is greater than 2 percent.

In instances where a school district has experienced a decline in enrollment, a school district's budget may be increased or adjusted in the next fiscal year to a guaranteed level of the district's current district cost authorization. For several years, the budget guarantee provided for up to 100 percent of the previous year's district cost authorization. Legislation enacted during the 2001 Legislative Session modified implementation of the budget guarantee. The legislation provided for the continuation of the 100 percent budget guarantee for the school budget years beginning July 1, 2001, 2002, and 2003. This enables a school district to maintain 100 percent of the previous year's budget, adjusted to include the amount of the budget adjustment the district received in the previous year. Starting with the school budget year beginning July 1, 2004, school districts will no longer be eligible for the 100 percent "adjusted" guarantee, but will be eligible for a 101 percent guarantee without the adjustment for inclusion of the previous year's guarantee. The legislation provided for an optional 10-year phaseout of the 100 percent adjusted guarantee for school districts which would lose money based on the change to a 101 percent non-adjusted guarantee. For the school budget year beginning July 1, 2004, a school district would be able to receive a guarantee of 90 percent of the difference between the guarantee level calculated for the school district for the school budget year beginning July 1, 2003, and the amount calculated for the current year if the guarantee were calculated to include the "adjustment" language. This option would decrease by 10 percent annually, until by July 1, 2013, all school districts would receive a budget guarantee based on 101 percent, without the adjustment for the previous year's guarantee.³³

E. Combined District Cost.

The combined district cost represents the total funding authorization a school district is allowed to receive under the foundation formula. Three primary elements are included in the combined district cost funding authorization.³⁴

1. Regular Program Budget.

The regular program budget for a school district is determined by multiplying the district cost per pupil by the district's weighted enrollment (including supplementary and special education weightings), and by applying the budget guarantee provision (where relevant).

2. Area Education Agency Costs.

Area education agencies are located throughout the state, organized to provide support in the areas of special education, media, and general education-related services. Funding for these services is included in the formula on a per pupil basis.³⁵ One aspect of area education agency services, special education support services, entails a separate set of state cost per pupil, district cost per pupil,

³³ Iowa Code § 257.14.

³⁴ Iowa Code § 257.10(8).

³⁵ Iowa Code § 257.1(2).



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and allowable growth calculations. While the area education agency costs are included in the state foundation formula, the special education support services funding differs somewhat from the so-called "regular" program cost. This topic is addressed in the next part of this Legislative Guide.

3. Additional Allowable Growth.

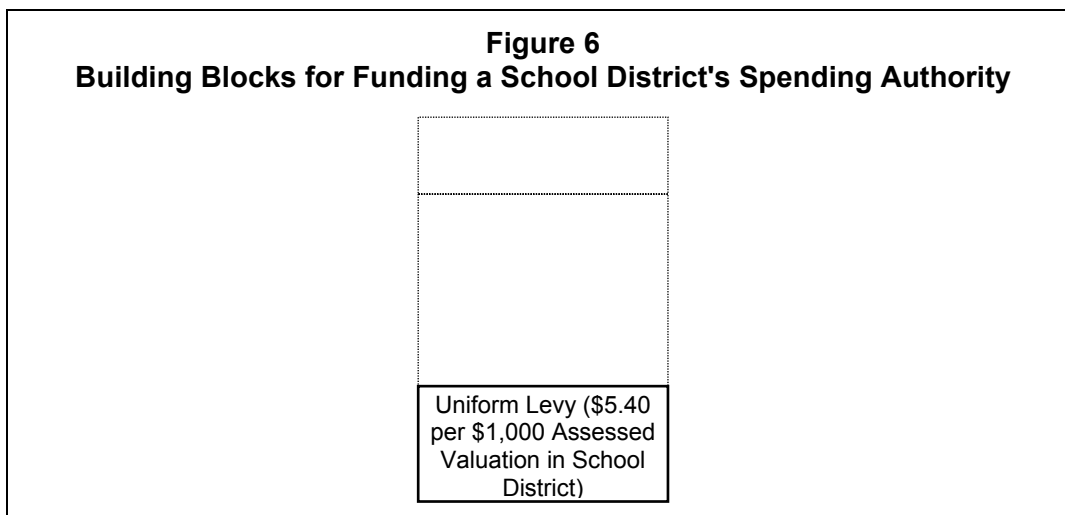
The School Budget Review Committee is authorized by statute to grant upon request by a district either permanent or one-time amounts of funding, which is also called additional allowable growth, to provide money for expenses or fulfill needs in addition to or in excess of amounts received under the formula.³⁶ Neither form of additional allowable growth impacts state foundation aid – funding comes entirely from an additional school district property tax levy. Appendix C contains additional information regarding the existence and authority of the School Budget Review Committee.

IV. Sources of Funding and State Financial Assistance.

The state foundation formula calculates both spending authority and how the spending authority is funded. This involves consideration of three primary funding components: the uniform levy, state foundation aid, and the additional levy.

A. Uniform Levy.

The first funding component, the uniform school district property tax levy, could be regarded as the "bottom block" in a building block schematic of formula funding sources (see Figure 6). The property tax levy is assessed on all taxable real property located in each school district within the state at a uniform rate of \$5.40 per \$1,000 of assessed valuation.³⁷ Tax-exempt property in the state is not subject to the levy.



The term "uniform" refers to the fact that a flat rate of \$5.40 is levied. The resulting amount of property tax revenue may vary significantly, however, depending

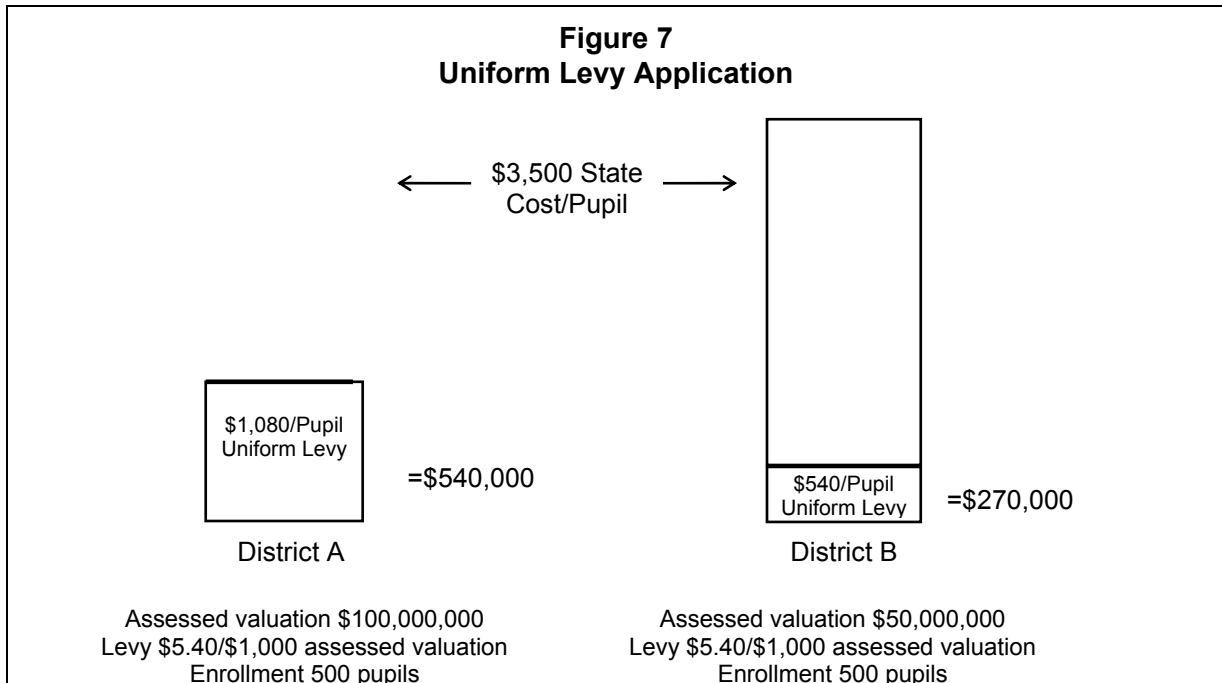
³⁶ Iowa Code § 257.31(5).

³⁷ Iowa Code § 257.3.



upon the assessed valuation of taxable property in a particular school district. Higher assessed value property will result in a higher amount of property tax collected, even though the rate of tax, \$5.40 per \$1,000, remains constant. The number of pupils enrolled in a district is key in determining the impact of the amount raised. A high assessed value district with relatively high enrollment will experience a dilution of revenue per child in comparison to a district raising the same amount with relatively fewer pupils enrolled.

Example: District A, with relatively high assessed property values, has a total assessed value of property of \$100,000,000. District B has a total assessed value of property of \$50,000,000. The uniform levy rate of \$5.40 per \$1,000 is applied to each, generating \$540,000 in District A and \$270,000 in District B. Although the rate of tax was "uniform," the amount raised differs substantially. See Figure 7.



This illustrates one of the inherent weaknesses of the "pre-formula" finance system. Relying largely on property taxes for education funding resulted in proportionately higher rates of taxation in lower property tax valuation districts, and relatively lower rates in higher property tax valuation districts. Districts least capable of affording them were placed in the position of paying higher property taxes to finance their programs of education. One of the reasons the education finance formula was conceived was to address these inequities.

It should be noted that in certain instances relatively small-sized school districts may be eligible for a reduced uniform levy tax rate. Legislation enacted during the 2001 Legislative Session authorizes a lower uniform levy in the event that a school district with fewer than 600 pupils enters into a reorganization or dissolution which



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takes effect on or after July 1, 2002, and on or before July 1, 2006. The uniform levy would gradually increase in succeeding years from an initially reduced rate of \$4.40 the first year, to \$4.90 the second year, to \$5.15 the third year, and finally back up to the flat rate of \$5.40 for the fourth year and each year thereafter. This reduced uniform levy rate, combined with the supplementary weighting available for school districts undergoing a reorganization or dissolution as previously discussed, serves as an incentive for smaller-sized school districts to consolidate.³⁸

B. Foundation Level.

State foundation aid represents the second funding component, and "middle block," in our funding source schematic. Through this commitment of state funds derived from the General Fund of the State and from sources other than school district property taxes, the formula seeks to address the funding inequities that are inherent in a property tax-reliant system.

In order to understand how state foundation aid operates to equalize per pupil expenditures, it is necessary to revisit the concept of state cost per pupil. As previously discussed, the state cost per pupil calculation consists of the previous year's state cost per pupil increased by the allowable growth amount. This new state cost per pupil is the figure to which the state foundation percentage is applied when calculating state foundation aid.

According to the formula, funding per pupil is equalized at 87.5 percent of the state cost per pupil.³⁹ This means that the state will provide state foundation aid up to 87.5 percent of the state cost per pupil, less whatever amount a school district raises from the uniform property tax levy.⁴⁰ The larger the amount of funding a high property tax valuation district can generate in the form of property tax dollars through the uniform levy, the lower the amount of state foundation aid necessary to reach the 87.5 percent level. Correspondingly, a lower property tax valuation district contributing proportionately fewer funding dollars raised from imposition of the same uniform levy will require a larger amount of state foundation aid to reach the 87.5 percent level. This is the reason the state foundation formula can be viewed as equalizing per pupil expenditures between school districts — the same level of funding is ultimately achieved, but the source of funding differs depending upon the assessed value level of a particular school district. It should be noted that the foundation percentage was increased to the 87.5 percent level beginning with fiscal year 1995-1996.⁴¹ The prior percentage level in effect for several years was 83 percent.⁴²

Example: Continuing the previous example, application of the uniform levy raised \$540,000 in District A and \$270,000 in District B. If a state cost per pupil of \$3,500 (lower than the current actual amount, but used for hypothetical purposes) and enrollments of 500 students in each district are

³⁸ Iowa Code § 257.3.

³⁹ Iowa Code § 257.1(2).

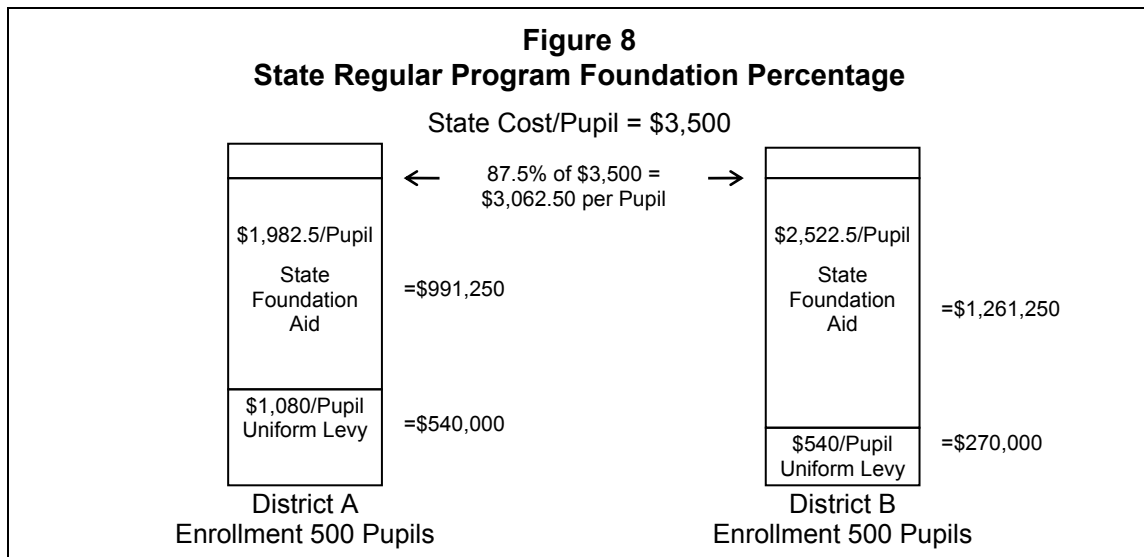
⁴⁰ Iowa Code § 257.1(2).

⁴¹ 1995 Iowa Acts ch. 130, § 1.

⁴² 1995 Iowa Code § 257.1.



assumed, District B appears at a significant disadvantage. How can funding be equalized between the two districts? The formula provides for payment of up to 87.5 percent of the state cost per pupil, which translates into a maximum state foundation aid payment of \$1,531,250 for the 500 students. District A will receive \$991,250 in state financial assistance (the maximum state foundation aid amount arrived at using the hypothetical state cost figure, \$1,531,250, minus the uniform levy amount, \$540,000), and District B will receive \$1,261,250 (the maximum state aid amount, \$1,531,250, minus the uniform levy amount, \$270,000). District B receives more state aid because it generated less revenue through the uniform levy. This result is illustrated in Figure 8.



Prior to the 1999 Legislative Session an important distinction was drawn between so-called "regular program" foundation aid, as outlined above, and special education foundation aid. For special education purposes, the state foundation percentage equaled 79 percent, instead of the regular program level of 87.5 percent. The same state cost per pupil was utilized for each, but the lower percentage of 79 percent was applied against the additional weighted enrollment due to special education. For the school budget year beginning July 1, 1999, and succeeding budget years, the regular foundation base per pupil, for the portion of weighted enrollment that is additional enrollment because of special education, has been increased to the 87.5 percent level.⁴³ The 79 percent foundation percentage remains applicable to special education support services costs, administered through an area education agency.⁴⁴ These costs were mentioned in the section on combined district cost, and involve a separate state and district cost calculation to which the percentage is applied.

Note that with respect to area educational agency funding, media and education services are funded entirely through property taxes and do not receive any state foundation aid, whereas special education support services costs are funded at the 79

⁴³ Iowa Code § 257.1(2).

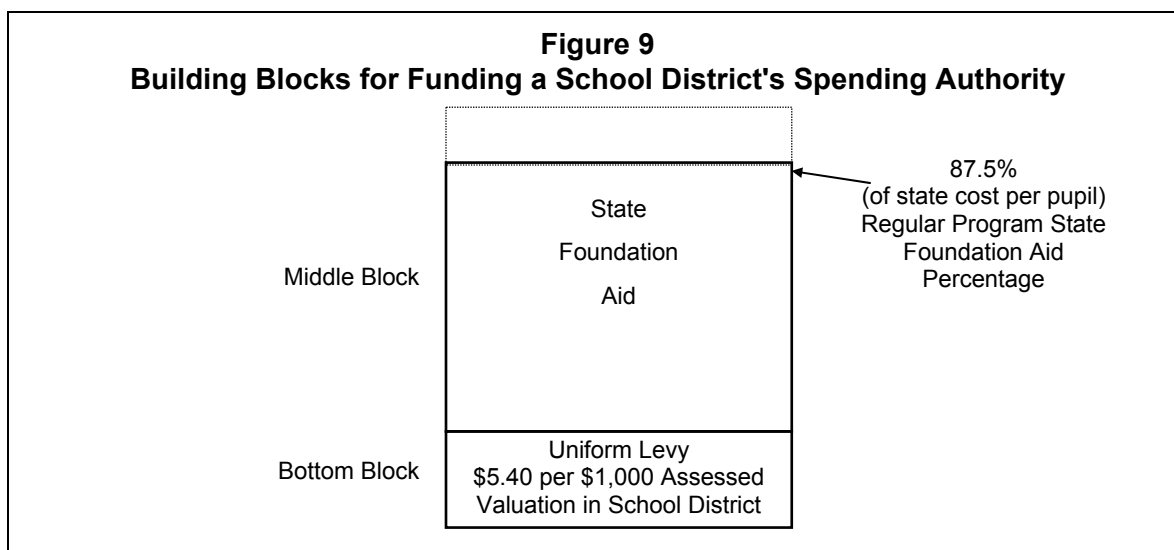
⁴⁴ Iowa Code § 257.1(2).



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percent level with state foundation aid moneys. Please consult the Legislative Guide on Area Education Agencies for more detailed information on area education agency funding.

Figure 9 illustrates the state foundation level as the middle building block for funding school district spending authority. Figure 10 provides dollar and percentage values for state foundation aid over the past several years, making clear that state foundation aid for education comprises a significant proportion of the overall state budget.



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Figure 10
State Aid to School Districts (Dollars in Millions)

Fiscal Year	State Aid - Formula		State Aid With Other Education Standing		Percent of General Fund Budget	
	Appropriations*				State Aid	
	Dollars	Increase	Dollars	Increase	State Aid	With Other*
1973	\$ 215.1		\$ 215.1		34%	34%
1974	250.1	16%	250.1	16%	32%	32%
1975	290.8	16%	290.8	16%	33%	33%
1976	385.4	33%	385.4	33%	36%	36%
1977	389.5	1%	389.5	1%	32%	32%
1978	430.0	10%	430.0	10%	33%	33%
1979	467.1	9%	467.1	9%	33%	33%
1980	527.4	13%	527.4	13%	33%	33%
1981	575.4	9%	575.4	9%	35%	35%
1982	621.0	8%	621.0	8%	35%	35%
1983	642.3	3%	642.3	3%	34%	34%
1984	660.3	3%	660.3	3%	33%	33%
1985	708.5	7%	708.5	7%	34%	34%
1986	712.3	1%	712.3	1%	33%	33%
1987	761.1	7%	761.1	7%	35%	35%
1988	813.8	7%	905.8	19%	33%	37%
1989	872.1	7%	964.1	6%	32%	36%
1990	957.4	10%	1,050.5	9%	34%	37%
1991	1,054.6	10%	1,155.0	10%	34%	37%
1992	1,093.8	4%	1,207.6	5%	34%	38%
1993	1,178.5	8%	1,283.7	6%	34%	37%
1994	1,231.7	5%	1,336.1	4%	35%	38%
1995	1,268.3	3%	1,374.2	3%	35%	38%
1996	1,330.9	4.9%	1,440.8	5%	35%	38%
1997	1,489.2	11.9%	1,614.5	12%	36%	39%
1998	1,558.2	4.6%	1,699.2	5%	36%	39%
1999	1,611.9	3%	1,754.9	3%	36%	39%
2000	1,698.5	5%	1,841.5	5%	35%	38%
2001	1,747.3	3%	1,913.8	4%	36%	39%
2002	1,725.1	-1.3%	1,880.1	-1.8%	37%	40%**
2003	1,784.3	6%	1,915.3	1.0%	40%	43%***

* "Other" = the dollar amount of state aid with other education appropriations.

** The Fiscal Year 2002 dollar and percentage value figures reflect the Governor's 4.3 percent across-the-board budget reductions made on November 1, 2001, pursuant to Executive Order No. 24 and legislative action taken during the 2001 Second Extraordinary Legislative Session which met on November 8, 2001. Includes a transfer of \$44.9 million from the Economic Emergency Fund.

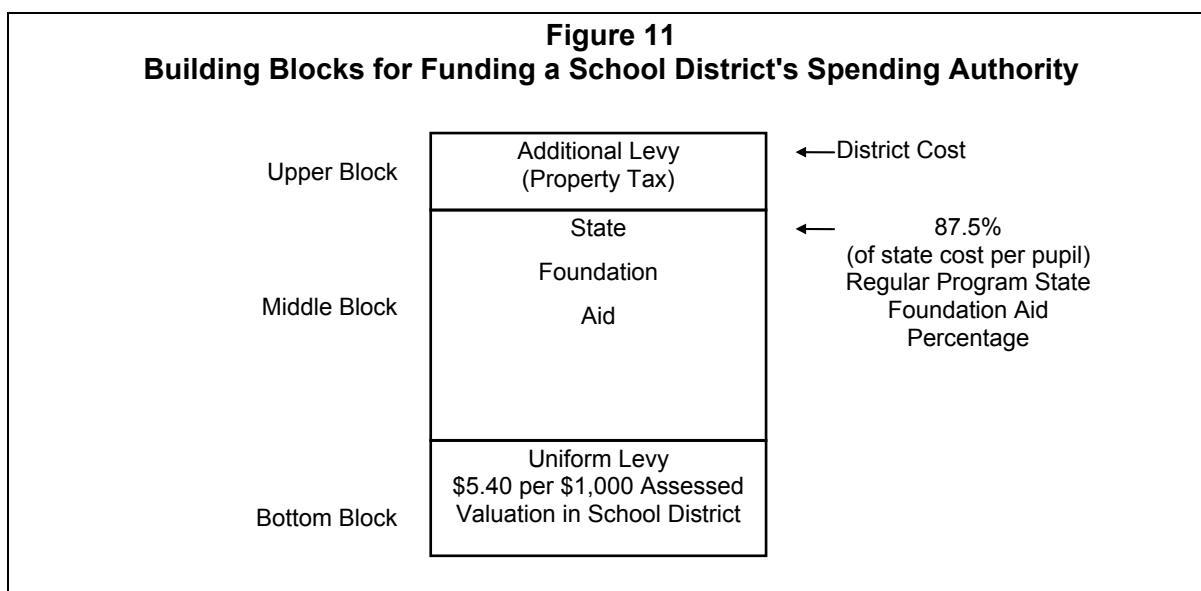
***Includes a transfer of \$25 million from the Economic Emergency Fund and a transfer of \$20 million from wagering tax revenues.



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C. Additional Levy.

The third funding component, and "upper block," is generally referred to as the "additional" levy. The additional school district property tax levy is the primary form of spending authorization above and beyond funds received from the uniform levy and state foundation aid necessary to fully fund a school district's combined district cost.⁴⁵ As opposed to the uniform levy rate of \$5.40 per \$1,000 of assessed valuation, the additional levy rate will vary depending upon the amount needed to be raised by a particular district to fully fund district cost. The impact of the additional levy will generally be more keenly felt in a district with lower assessed property values, i.e., a proportionately higher property tax rate will be necessary given the valuation levels involved. Conversely, a district with higher assessed property values might require a relatively low additional property tax rate to fully fund district cost. Figure 11 illustrates the additional levy as the upper block for funding a school district's spending authority.

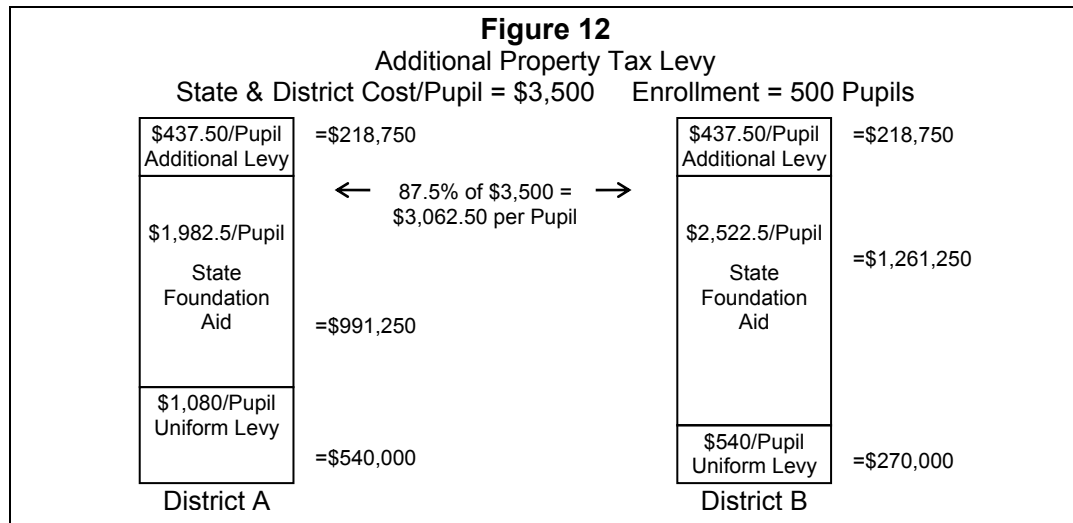


Example: In the previous two examples, the uniform levy raised \$540,000 in District A and \$270,000 in District B. The state foundation aid amounts total \$991,250 and \$1,261,250, respectively, for the two districts. Enrollment in each district was assumed, for hypothetical purposes, to equal 500 students. Assuming a district cost for each equal to the hypothetical state cost per pupil of \$3,500 multiplied by 500, or \$1,750,000, what are the additional levy amounts? The additional levy would be the amount of property tax which would raise enough revenue to equal the difference between the amount of revenue raised by the uniform levy and received by the district in state foundation aid, and the hypothetical district cost amount. In each case, this would total \$218,750.

⁴⁵Iowa Code § 257.4.



This result is illustrated in Figure 12. While, based on our assumptions, the additional levy amounts are equal, District B, with a lower assessed property value, would require a higher rate of tax to raise the necessary



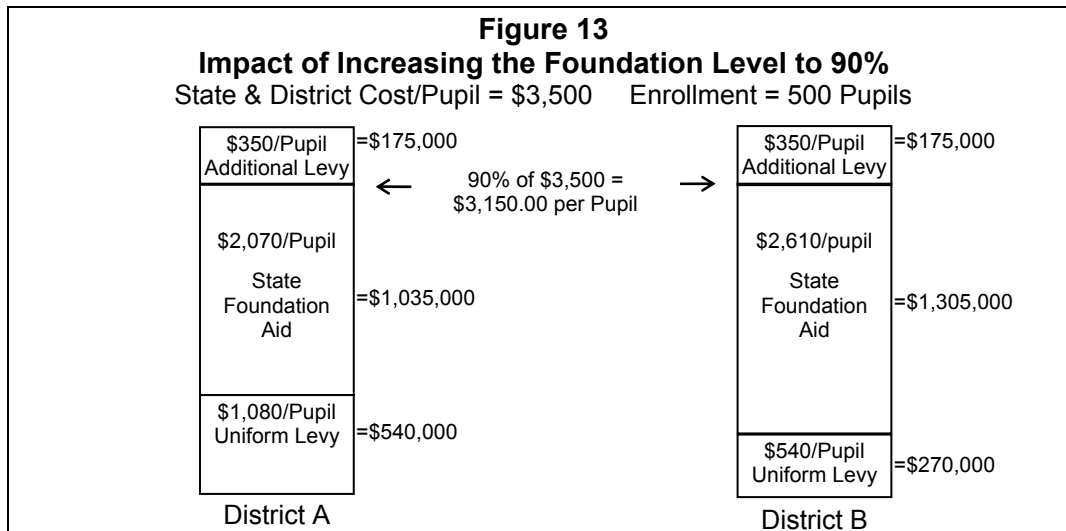
funds.

The uniform levy, state foundation aid, and additional levy combine to fund a school district's combined district cost. Having examined the impact of a high versus low assessed value of property on these parameters, another valuable insight concerns how fluctuations in one of the components affect the other two.

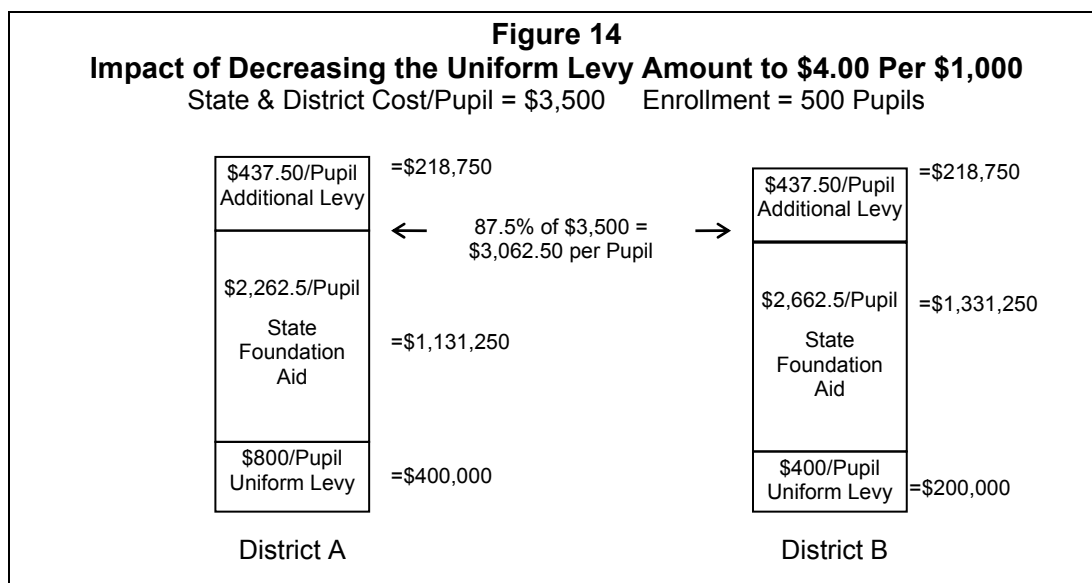
Example: Previous examples have depicted a foundation percentage level of 87.5 percent. What would be the impact of an increase to 90 percent? The uniform levy amounts would remain the same, and 90 percent of the hypothetical state cost per pupil figure of \$3,500 equals \$3,150 per pupil. District A's uniform levy yielded \$540,000, and District B's yielded \$270,000. State foundation aid would accordingly be the difference – \$1,575,000 (\$3,150 per pupil multiplied by 500 pupils) minus \$540,000 equals \$1,035,000 for District A. For District B, a similar calculation results in state foundation aid of \$1,305,000. See Figure 13. Note that this increase to 90 percent of the hypothetical state cost per pupil figure of \$3,500 results in the same amount of additional state foundation aid per pupil to both districts (\$87.50 to each). Note also that the amount of revenue to be raised from the additional levy amount decreases, lessening the overall property tax impact on both districts.



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Example: Instead of a change in the foundation percentage level, what would be the impact on District A and District B of a decrease in the uniform levy rate? Assume a decrease in the uniform levy rate to \$4.00 per \$1,000 assessed valuation, with the foundation level remaining at 87.5 percent. District A, with an assessed value of \$100,000,000, would yield \$400,000 from the levy. District B, with an assessed value of \$50,000,000, would yield \$200,000. The result would be an increased level of state foundation aid, despite the fact that the foundation percentage level remained unchanged. Remember, state foundation aid is the difference between the foundation percentage level of the state cost per pupil and the amount raised by the uniform levy. See Figure 14.



D. Additional Aspects of Spending Authority.

The above discussion has focused on combined district cost, which is the amount of a school district's spending authorization funded through the foundation formula by



imposition of the uniform and additional school district property tax levies and receipt of state foundation aid. There are, however, two additional elements of spending authority which will be briefly mentioned:

1. Miscellaneous Income.

Miscellaneous income is a catch-all category in the sense that it includes any income received by a school district other than through the uniform levy, state foundation aid, or the additional levy.⁴⁶ In other words, it is income received that is not included in the combined district cost authorization for raising local property taxes and receiving state foundation aid. Examples include investment interest, student services fees, federal school aid, and moneys received through the instructional support program. Other examples of miscellaneous income include money received through the Educational Excellence Program, which establishes and appropriates funding for minimum teacher salaries, salary increases, and professional development funding pursuant to Iowa Code chapter 294A, and money received under the Student Achievement and Teacher Quality Program pursuant to Code chapter 284.

2. Unspent Balance.

An unspent balance consists of previous spending authority carried over, or funds received which were unspent, in a prior year.⁴⁷ In essence, this amounts to the difference between a school district's total spending authority and amounts actually expended.

V. Appendices.

A. Additional Sources of School District Revenue.

While the state foundation aid program is the primary revenue source for school districts, other sources of revenue also exist. Other property tax levies, income surtaxes, combination levies, and a local option sales tax are authorized by statute. In general, the authorizations are specific as to purpose and scope, and some require voter, in addition to school board, approval. A detailed discussion of these revenue sources is beyond the scope of this Guide. However, the following is a brief description of several revenue sources:

1. Instructional Support Program.

The instructional support program allows school districts to increase their budgets by up to 10 percent of the regular program district cost, funded either exclusively through property taxes, or in combination with an income surtax (up to a maximum of 20 percent).⁴⁸ The method of funding is determined by the school board, and the funds generated may be utilized for any school district general fund purpose. A majority of school districts have some form of instructional support program. It may be established by the school board for a

⁴⁶ Iowa Code § 257.2(9).

⁴⁷ Iowa Code § 257.7(1).

⁴⁸ Iowa Code § 257.18, 257.19.



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five-year duration without voter approval (although subject to reverse referendum), or for a maximum of 10 years with voter approval. Limited state aid matching a portion of the amount raised locally is provided, but is frozen or "capped" at the level appropriated for the budget year which commenced on July 9, 1992.⁴⁹

2. Educational Improvement Levy.

The educational improvement levy may be utilized in a district that has approved participation in the instructional support program if the district has a regular program district cost per pupil exceeding 110 percent of the regular program state cost per pupil (which was the previous statutory maximum district cost per pupil). Income surtaxes are permitted to support the educational improvement program. This levy will remain in place until the board acts to remove it or a referendum is held to remove it. A majority vote is required of the electorate to approve the levy.⁵⁰

3. Gifted and Talented Education Program.

This program was previously funded through the granting of additional allowable growth by the School Budget Review Committee. For the school budget year beginning July 1, 1999, and succeeding school budget years, a school district's gifted and talented program will be funded through the school finance formula. Legislation enacted during the 1999 Legislation Session provided for an increase in the regular program allowable growth for the school budget year beginning July 1, 1999, of \$38 per pupil, with the proportion of a school district's budget which corresponds to the increase utilized exclusively for gifted and talented program funding.⁵¹ All school districts within the state must establish a gifted and talented program, and the program and budget must be approved by the Department of Education.

4. Dropout Programs.

The spending authorization for dropout and dropout prevention programs is funded on the basis of one-fourth or more from the district cost of the school district and up to three-fourths through the granting of additional allowable growth by the School Budget Review Committee. Programs may be geared either to dropout prevention or to lowering dropout rates or for programs designed for former dropouts returning to the school system.⁵²

5. Management Levy.

The management levy is a levy deposited in the district management fund to pay costs incurred for unemployment, early retirement, liability, health and medical insurance coverage, self-insurance, tort judgments against the district,

⁴⁹ Iowa Code § 257.20(2).

⁵⁰ Iowa Code § 257.29.

⁵¹ Iowa Code § 257.8.

⁵² Iowa Code § 257.41.



and loss of property.⁵³ The board of directors of a school district may certify this levy, which does not require approval of the electorate.

6. Physical Plant and Equipment Levy.

Directed toward major building repair and improvement, equipment or technology acquisition, and energy or transportation-related equipment or expenditures, this property tax levy has a maximum limit of \$1.67 per \$1,000 of assessed valuation. This amount is allocated on a 33 cents per \$1,000 of assessed valuation basis with board approval, with voter approval required for the remaining portion.⁵⁴ It should be noted that the amount able to be levied with voter approval was recently doubled from a previous maximum limit of 67 cents per \$1,000 of assessed valuation to \$1.34 per \$1,000 of assessed valuation. However, legislation enacted during the 1996 Legislative Session establishing this increase provided that a school district that already had a voter-approved levy at the former maximum rate of up to 67 cents per \$1,000 of assessed value must continue at that rate for the duration of the period authorized for levy, unless the voters in the school district approve an additional levy of up to 67 cents per \$1,000 of assessed value during the authorized period.

The legislation also provided that revenue from the regular and voter-approved physical plant and equipment levies may not be expended by the school district for district employee salaries or travel expenses, supplies, printing costs or media services, or for any other purposes not expressly authorized in Code section 298.3.⁵⁵

7. Education and Recreation (Playground) Levy.

The board of directors may authorize a property tax levy of up to 13.5 cents per \$1,000 of assessed valuation to be directed toward the purchase of playgrounds and recreational facilities on public school property within the district and for the costs of community education.⁵⁶ Voter approval is required. Once enacted the levy remains in place until rescinded by either the board or the voters.

8. Cash Reserve Levy.

School districts may levy property taxes to hold in reserve for cash flow purposes. As opposed to the other levies, this does not have the effect of increasing spending authority.⁵⁷ The cash reserve can be utilized if state foundation aid is reduced – such as for across-the-board cuts – or if property taxes are not collected.

⁵³ Iowa Code § 298.4.

⁵⁴ Iowa Code § 298.2.

⁵⁵ Iowa Code ch. 298.

⁵⁶ Iowa Code § 300.2.

⁵⁷ Iowa Code § 298.10.



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9. Bonds.

Bonds for debt service retirement, with a maximum length of 20 years, may be issued by a school board with the approval of 60 percent of the electorate.⁵⁸ The 60 percent requirement to approve a bond issue exceeds the "simple majority" required for voter-approved finance programs such as the instructional support program, the physical plant and equipment levy, and the local option sales tax for school infrastructure. This supermajority approval requirement has been perceived as difficult to achieve by proponents of failed bond issue efforts in recent years. In fact, only about 50 percent of the 41 school bond issues presented on average to Iowa voters annually during the period from 1993 through 1997 passed. If only a simple majority vote were required for passage, about 76 percent of the 41 school bond issues presented on average annually during that five-year period would have passed. See figure 15.⁵⁹

Figure 15

Year	Number attempted	Number that passed	Number that garnered more than 50 percent, but still failed
1996-97	50	28	8
1995-96	42	24	12
1994-95	44	21	9
1993-94	39	20	11
1992-93	31	11	12

10. Enrichment Levy.

The enrichment levy is no longer available, but under "grandfathering" provisions it may continue until expiration in districts already utilizing it. The levy increased the school district's budget by up to 15 percent of the state cost per pupil times enrollment.⁶⁰ Originally, the enrichment levy was intended to provide funding for educational research, curriculum, and the maintenance or development of innovative programs. These restrictions were eventually dropped. Districts using the enrichment levy may not also make use of the instructional support program funding.

11. Schoolhouse Levy.

The schoolhouse levy is another "grandfathered" levy, utilized prior to the establishment of the physical plant and equipment levy, authorizing school districts to levy up to 67.5 cents per \$1,000 of assessed valuation, upon voter

⁵⁸ Iowa Code § 298.18.

⁵⁹ Grenz, Bond Issues Get Private Push, Des Moines Register, August 11, 1998, at 1M., col. 2.

⁶⁰ Iowa Code § 257.28.



approval, for capital expenditure-related improvements.⁶¹ Authorized purposes included the purchase of land, new building construction, remodeling or upkeep of existing buildings, and road and grounds-related upkeep.

12. Local Option Sales Tax for School Infrastructure.

Legislation enacted in 1998 established an additional source of school district revenue, to be directed specifically toward school infrastructure needs, derived from sales tax rather than property tax or an income surtax.⁶² A local option sales tax for school infrastructure purposes may be authorized, approved, and implemented by a county on behalf of a school district or school districts located within the county, separate and distinct from any other local sales and services tax otherwise imposed by a city or county pursuant to Code chapter 422B. The tax is subject to a 1 percent maximum rate, for up to a 10-year duration, and is imposed countywide. For purposes of the local option sales tax, "school infrastructure" refers to those activities for which a school district is authorized to contract indebtedness and to issue general obligation bonds under Code section 296.1, including the construction, reconstruction, repair, purchasing, or remodeling of schoolhouses, stadiums, gyms, fieldhouses, or bus garages. Imposition of the tax can be requested by a petition signed by eligible electors of the county, by a motion of the school board or school boards representing school districts comprising at least 50 percent of the population of a county, or by the county board of supervisors. The tax will be imposed if approved by a majority vote of those persons voting on the question within a county. The school board is authorized to issue negotiable, interest-bearing school bonds without election, and to utilize tax receipts derived from the sales tax for school infrastructure purposes for principal and interest repayment.

B. State School Finance Approaches Around the Nation.

Iowa's approach to school finance, with the state contributing financial assistance under the foundation formula up to a specified percentage of the state cost per pupil calculation, is one of four basic types or varieties of state aid distribution formulas. While the mechanics of each approach operate quite differently, they share the common objective of addressing the disparities in revenue-generating capacity among local school districts. To assist in understanding the operation of Iowa school finance by way of comparison with the approaches of other states, and to provide a frame of reference for evaluating periodic suggestions for Iowa school aid formula reform, a brief explanation of each approach follows. A chart summarizing state school finance formula approaches on a state-by-state basis accompanies the explanation.

1. Flat Grants.

The flat grant approach involves the state distributing a specified minimum level of funding per "unit." A unit can either be measured in terms of the number

⁶¹ Iowa Code § 298A.5.

⁶² Iowa Code §§ 422E.1-422E.5.



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of pupils attending school within a given school district or the number of teachers or instructional units employed by the school district. Each unit receives a designated amount of state aid dollars, with a school district able to exceed the grant amount either through use of a weighting procedure in the determination of unit count (conceptually similar to weighted enrollment or supplemental weighting, discussed in earlier sections of this Guide) or through a local, nonstate-assisted funding effort.⁶³ The appeal of the flat grant approach, beyond its simplicity, lies in the fact that it establishes a minimum level of financial assistance for all pupils in the state, and that it focuses on educational needs by calculating aid on the basis of students and teachers. The primary drawback to the approach, however, is that it fails to account for the wide disparity or variation among local school districts in terms of revenue-generating capacity.⁶⁴ Even in states which utilize another school finance approach as their primary funding mechanism, flat grants may be employed for designated programs and services. In Iowa, examples of such programs or services would be the Educational Excellence Program previously mentioned in this Guide, and provisions relating to school improvement and technology funding contained in Code chapter 295.

2. Foundation Programs.

The foundation approach, utilized in Iowa, is the method of school finance employed by a majority of the states. In common with the flat grant approach, there is a commitment by the state to provide a minimum level of state financial assistance per pupil. The difference is that instead of a flat dollar amount per unit, state financial assistance takes the form of a specified percentage of a designated level of support, with local school districts providing a floor level of funding through local tax effort. The state provides funding above and beyond the amount raised locally, up to the designated minimum level. In Iowa, as discussed in previous sections of this Guide, the designated minimum level of support is referred to as a percentage of state cost per pupil, and the local tax effort is referred to as the uniform levy. Variations exist between states as to whether a minimum rate of tax must be imposed locally. As previously discussed, the uniform levy is imposed in Iowa at the rate of \$5.40 per \$1,000 of assessed valuation.⁶⁵ The primary advantage of the foundation approach is that it incorporates an equalization factor. The state makes up the difference in state financial assistance between the amount raised locally (which will vary depending on the valuation levels involved) and the designated minimum level. The potential for disparity still exists, however, for any amounts raised locally above and beyond the designated minimum level of support (i.e., the "additional

⁶³ Gold, Steven D., Public School Finance Programs of the United States and Canada 1993-94, Vol. I and II. American Education Finance Association and Center for the Study of the States; The Nelson A. Rockefeller Institute of Government, State University of New York, 1995.

⁶⁴ Understanding State School Finance Formulas, National Education Association, 1987.

⁶⁵ Gold, Steven D., Public School Finance Programs of the United States and Canada 1993-94, Vol. I and II. American Education Finance Association and Center for the Study of the States; The Nelson A. Rockefeller Institute of Government, State University of New York, 1995.



levy" in Iowa). It should be noted that not only is the foundation program approach the most widely utilized school finance method, but over the past 10 years several states have switched to some form of it from another method.⁶⁶

3. District Power Equalization Programs.

A third approach, which has several variations, involves focusing on state assistance in equalizing the ability of local school districts to raise revenue, rather than establishing a minimum threshold of state financial support. The idea is to guarantee to all school districts, regardless of assessed valuation, the same revenue yield from the application of a specified tax rate. There are three primary forms of district power equalization. Percentage equalization programs involve a local school district determining the size of its budget, with the state then paying a portion of the budget based upon an aid ratio for the district which takes into account assessed valuation in the district and the state in its entirety. Guaranteed tax base programs focus on guaranteeing a designated level of assessed valuation per pupil. Guaranteed tax yield programs, in contrast, are concerned with guaranteeing a designated level of revenue per pupil.⁶⁷

4. Full Funding Programs.

The final primary approach to state school finance involves the state assuming full financial responsibility for school funding. While this promotes equity, there is a corresponding loss of local control, given that the entire state is essentially converted into one uniform school district. Further, a substantial commitment of state financial resources, derived from tax revenue, is involved. This method is the least commonly encountered approach, but a general trend can be observed toward increasing greater state assumption of financial responsibility for school district funding.⁶⁸

Figure 16 provides a breakdown of the primary school finance mechanism employed by each state.⁶⁹

Figure 16
STATE SCHOOL FINANCE SYSTEMS

STATE	BASIC SUPPORT PROGRAM
Alabama	Foundation Program with mandatory local effort
Alaska	Foundation Program with mandatory local effort
Arizona	Foundation Program - local effort not mandatory
Arkansas	Foundation Program - local effort not mandatory
California	Foundation Program - local effort not mandatory

⁶⁶Id.

⁶⁷Id.

⁶⁸Id.

⁶⁹Id.



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Colorado	Foundation Program with mandatory local effort
Connecticut ^a	Percentage Equalization Program - mandatory local effort
Delaware ^b	Flat Grant
Florida	Foundation Program with mandatory local effort
Georgia ^c	Foundation Program with mandatory local effort
Hawaii	Full state funding
Idaho	Foundation Program - local effort not mandatory
Illinois	Foundation Program - local effort not mandatory
Indiana	Guaranteed Tax Base/Yield Program
Iowa	Foundation Program with mandatory local effort
Kansas	Percentage Equalization Program - local effort not mandatory
Kentucky	Foundation Program with mandatory local effort
Louisiana	Foundation Program - local effort not mandatory
Maine	Foundation Program with mandatory local effort
Maryland	Foundation Program - local effort not mandatory
Massachusetts	Foundation Program with mandatory local effort
Michigan	Foundation Program with mandatory local effort
Minnesota	Foundation Program with mandatory local effort
Mississippi	Foundation Program with mandatory local effort
Missouri ^d	Foundation Program with mandatory local effort
Montana ^c	Foundation Program - local effort not mandatory
Nebraska	Foundation Program - local effort not mandatory
Nevada	Foundation Program with mandatory local effort
New Hampshire	Foundation Program - local effort not mandatory
New Jersey	Foundation Program - local effort not mandatory
New Mexico	Foundation Program with mandatory local effort
New York	Percentage Equalization Program - local effort not mandatory
North Carolina	Flat Grant
North Dakota	Foundation Program - local effort not mandatory
Ohio	Foundation Program with mandatory local effort
Oklahoma ^c	Foundation Program - local effort not mandatory
Oregon	Foundation Program - local effort not mandatory
Pennsylvania	Percentage Equalization Program - local effort not mandatory
Rhode Island	Percentage Equalization Program
South Carolina	Foundation Program with mandatory local effort
South Dakota	Foundation Program - local effort not mandatory
Tennessee	Foundation Program with mandatory local effort

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Texas ^c	Foundation Program with mandatory local effort
Utah	Foundation Program with mandatory local effort
Vermont	Foundation Program - local effort not mandatory
Virginia	Foundation Program with mandatory local effort
Washington	Full State Funding
West Virginia	Foundation Program - local effort not mandatory
Wisconsin	Guaranteed Tax Base/Yield Program
Wyoming	Foundation Program with mandatory local effort

NOTES:

a. Although Connecticut considers the basic support program to be a foundation program, for purposes of this table, it is considered to be a percentage equalizing program since an aid ratio is used in the calculation of basic support aid.

b. Delaware has a separate equalization component in addition to the flat grant as part of the basic support program.

c. These states have a second tier of guaranteed tax base/guaranteed tax yield funding in addition to the foundation program.

d. Missouri incorporates a guaranteed tax base add-on into the basic support formula.

C. School Budget Review Committee.

The School Budget Review Committee (SBRC) is a five-member committee functioning within the Department of Education and comprised of appointed members knowledgeable in Iowa school finance. The functions of the SBRC constitute a budgeting and tax oversight process through which school districts with unique or unusual circumstances can apply for assistance and be subjected to fiscal review. The SBRC has a broad grant of authority, pursuant to Iowa Code section 257.31, to review and make recommendations concerning any matter potentially impacting school district accounting and budgeting aspects. Financial assistance to school districts may occur either in the form of a grant of supplemental aid out of funds appropriated to the Department of Education for use by the SBRC, or through the granting of additional allowable growth which authorizes the levying of additional property taxes. Specific SBRC assistance to school districts may take several forms. Examples include:

1. Unique or Unusual Situations.

School districts may receive SBRC supplemental aid or the granting of additional allowable growth if faced with the following unique or unusual situations:

- a. Any unusual increase or decline in enrollment.
- b. Unusual natural disasters.
- c. Unusual initial staffing problems.



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- d. The closing of a nonpublic school, wholly or in part or the opening or closing of a pilot charter school.
- e. Substantial reduction in miscellaneous income due to circumstances beyond the control of the school district.
- f. Unusual necessity for additional funds to permit continuance of a course or program which provides substantial benefit to pupils.
- g. Unusual need for a new course or program which will provide substantial benefit to pupils, if the school district establishes the need and the amount of necessary increased cost.
- h. Unusual need of additional funds for special education or special educational needs of districts.
- i. Year-round or substantially year-round attendance programs which apply toward graduation requirements, including but not limited to trimester or four-quarter programs. Enrollment in such programs must be adjusted to reflect equivalency to normal school year attendance.
- j. Unusual need to continue providing a program or other special assistance to non-English-speaking pupils after the expiration of the three-year period specified in Iowa Code section 280.4.
- k. Circumstances caused by unusual demographic characteristics.
- l. Any unique problems of school districts.⁷⁰

Financial assistance requests made most frequently relate to the dropout and drop-out prevention programs (previously discussed), new or ongoing unique educational programs, enrollment changes due to open enrollment, extraordinary enrollment increases, or the impact of nonpublic school pupil enrollment.

2. Transportation Assistance.

The SBRC is authorized to provide assistance to school districts incurring transportation costs substantially exceeding statewide average transportation costs. The SBRC may grant assistance to school districts if a district's average transportation costs per pupil exceed 150 percent of the state average transportation cost per pupil calculation.⁷¹ Transportation assistance aid is discussed in more detail in section D of this Appendix.

3. Special Education Balances and Weighting.

The SBRC determines the positive or negative balance of funds raised for special education instruction programs pursuant to the special education weighting plan established in Iowa Code section 256B.9, and is authorized to reallocate positive balances and provide assistance and authorize additional allowable growth for negative balances.⁷² The SBRC also reviews the

⁷⁰ Iowa Code § 257.31(5).

⁷¹ Iowa Code § 257.31(14).

⁷² Iowa Code § 257.31(14).



recommendations of the Director of the Department of Education relating to the level of the special education weightings.⁷³

4. Unexpended Cash Balance.

The SBRC is authorized to review the extent to which school districts levy for cash reserve, and has the power to reduce cash reserve levies and to authorize a school district to expend a reasonable and specific amount of its unexpended cash reserve for specified purposes.⁷⁴

Beyond the specific examples set forth above, the SBRC has general authority to review school districts' budgets and request school officials to appear before the SBRC or provide the SBRC with specific information.⁷⁵

D. State Transportation Aid.

Iowa Code chapter 285 governs the administration of state aid for the transportation of public and nonpublic pupils. References to "state transportation aid" may be somewhat misleading, given that there is not a separate state allocation of funds for transportation distinct from amounts passing to school districts pursuant to the state foundation formula (other than School Budget Review Committee assistance, as previously discussed). Transportation funding is received by school districts combined with the other state foundation aid received by the district and available for allocation by the local school board as the board deems appropriate for the administration of the school district's transportation needs and expenses.

State aid for the transportation of public and nonpublic pupils takes one of three primary forms – direct transport by the school district, parental transport with school district reimbursement, or contracting with a third-party carrier for the furnishing of the school district's transportation needs. The following is a summary of some of the main transportation provisions:

- School boards are required to provide transportation either directly, by contract, or through reimbursement, to pupils in grades kindergarten through 12, and additionally to prekindergarten public and nonpublic pupils, provided that specified distance-from-school threshold requirements are met, and the pupils will regularly utilize the transportation service.⁷⁶
- Optionally, school boards may provide transportation for pupils who do not meet the mileage eligibility requirements, and may in the board's discretion collect from the transported pupils' parents or guardians the pro rata transportation cost.⁷⁷
- If transportation by bus is either impracticable or unavailable, a parent or guardian may be required to transport a pupil and be reimbursed by the district

⁷³ Iowa Code § 257.31(12).

⁷⁴ Iowa Code § 257.31(15).

⁷⁵ Iowa Code § 257.31(3,11).

⁷⁶ Iowa Code § 285.1.

⁷⁷ Iowa Code § 285.1(1).



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for transportation expenses at a designated reimbursement rate. A parent or guardian may also be required to transport a pupil to a point up to two miles from the pupil's residence to connect with a transportation vehicle, if road conditions are unsatisfactory, and be reimbursed at a designated rate per mile. Pupils may be required to meet a transportation vehicle on an approved route up to three-fourths of a mile from their residence without reimbursement.⁷⁸

- Provisions are made for the allocation of transportation expenses from a sending to a receiving school, contracting with a common carrier when transportation by school bus is impracticable or unavailable, suspension of transportation services due to inclement weather, measurement of distances in computing mileage from school, transportation of nonresident pupils, and the calculation of pro rata transportation costs.⁷⁹
- Nonpublic school pupils are entitled to transportation on the same basis as public school pupils. If the nonpublic school is located within a public school district, nonpublic pupils will be transported to the nonpublic school designated by the parents or guardians for attendance. If the nonpublic school is located outside a public school district, nonpublic school pupils will be transported to a public school or other designated location within the school district or at a location outside the public school district designated by the public school district. At the option of a public school district, transportation may be provided by a school bus operated by the public school district, by another carrier pursuant to contract, or the cost of the transportation may be reimbursed.⁸⁰
- Provisions are made for the reimbursement of nonpublic school pupil transportation furnished by a school district and by the parents or guardians of nonpublic school children for the transportation of pupils sent to another school district after a school facility is closed, and for the terms of contracts for the provision of school bus services by private parties.⁸¹
- The powers and duties of the Department of Education and the area education agency and local school boards relating to transportation are set forth, as are provisions relating to the inspection of school bus transportation vehicles, the planning of bus routes, and dispute resolution procedures between a school patron and a school board, and between school boards.⁸²
- While the primary allocation of state aid for transportation is contained within amounts passing to a school district pursuant to the state foundation formula, the School Budget Review Committee can directly provide additional financial assistance for transportation, as previously discussed, if a school district's

⁷⁸ Iowa Code § 285.1(1).

⁷⁹ Iowa Code § 285.1(6, 7, 8, 9, 10, and 12).

⁸⁰ Iowa Code § 285.1(14 - 17).

⁸¹ Iowa Code §§ 285.2-285.4.

⁸² Iowa Code §§ 285.8-285.13.



average transportation cost per pupil exceeds 150 percent of the state average transportation cost per pupil calculation.⁸³

E. Open Enrollment and Postsecondary Enrollment Options.

1. Open Enrollment.

As discussed previously, the determination of a school district's enrollment is fundamental to the operation of the school finance formula. Two specialized forms of enrollment which frequently generate some confusion concern open enrollment and postsecondary enrollment options.

The concept of open enrollment refers to a situation in which a pupil residing in one school district receives permission to attend a school located in another school district on a full-time basis. Iowa Code section 282.18 sets forth the following rationale for permitting open enrollment:

It is the goal of the general assembly to permit a wide range of educational choices for children enrolled in schools in this state and to maximize ability to use those choices. It is therefore the intent that this section be construed broadly to maximize parental choice and access to educational opportunities which are not available to children because of where they live.⁸⁴

An application for open enrollment must be submitted by a parent or guardian to the school district of residence and the receiving school district by January 1 of the year preceding the school year for which open enrollment is sought, unless specified criteria for extending that deadline are met. The application must be approved by the school district's board of directors. If approved, the application will then be transmitted to the school district in which open enrollment is sought, which must also approve the application. For purposes of open enrollment, the school district in which a student resides and would be enrolled but for an application for open enrollment is referred to as the "sending district," and the school district in which enrollment is sought is referred to as the "receiving district." An application can be denied if its approval would adversely affect implementation of a voluntary or court-ordered desegregation plan, or if the receiving district determines that available classroom space within the district is insufficient to accommodate the open enrollment request.⁸⁵

State funding for open enrollment flows from the sending to the receiving district. A pupil participating in open enrollment is counted for enrollment purposes in the pupil's district of residence (the sending district). The sending district then remits to the receiving district the state cost per pupil, and additional amounts such as supplementary weighting for limited English proficient students, for the preceding school year for the pupil participating in open enrollment.

⁸³ Iowa Code § 257.31(17).

⁸⁴ Iowa Code § 282.18(1).

⁸⁵ Iowa Code § 282.18(2 and 3).



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Payments are made on a quarterly basis.⁸⁶ If the pupil requires special education pursuant to Iowa Code chapter 256B, a request for open enrollment will be granted only if the receiving district maintains a special education instructional program which is appropriate to meet the pupil's educational needs, and the enrollment of the pupil in the receiving district's program will not cause the size of the special education instructional program to exceed maximum special education class size rules. Funding for a pupil requiring special education is remitted by the sending district to the receiving district in an amount corresponding to the actual costs incurred in providing special education instruction for the pupil.⁸⁷

2. Postsecondary Enrollment Options.

A second form of enrollment intended to facilitate expanded educational access for high school pupils concerns postsecondary enrollment options. Ninth and tenth grade pupils who have been identified as gifted and talented, and eleventh and twelfth grade pupils whether or not so identified, may apply to an eligible postsecondary institution to enroll for academic or vocational-technical credit in a nonsectarian course offered at that institution. An application for postsecondary enrollment is conditioned on the unavailability of a comparable course in the pupil's school district or accredited nonpublic school. An "eligible postsecondary institution" refers to an institution of higher learning under the control of the State Board of Regents, a community college established under Iowa Code chapter 260C, or an accredited private institution as defined in Iowa Code section 261.9, subsection 1.⁸⁸

In contrast to open enrollment, a pupil receiving credit pursuant to a postsecondary enrollment option remains enrolled in the pupil's school district of residence and participates in coursework outside of the pupil's school district of residence for less than the full school day. High school academic or vocational-technical credit is given upon successful completion of the coursework, in an amount determined by the school district, accredited nonpublic school, or by the State Board of Regents for pupils of the School for the Deaf and the Iowa Braille and Sight Saving School.⁸⁹

Funding for postsecondary enrollment options flows from the sending district to the postsecondary institution, in an amount corresponding to the lesser of either the actual and customary costs of tuition, textbooks, materials, and fees directly related to the course taken, or the sum of \$250. Tuition reimbursement must be paid to the postsecondary institution no later than June 30 of each year. A school district receives no additional state funding attributable to pupils participating in postsecondary enrollment. Additionally, if the cost of the coursework exceeds \$250, provision is not made for a supplemental funding

⁸⁶ Iowa Code § 282.18(7).

⁸⁷ Iowa Code § 282.18(8).

⁸⁸ Iowa Code §§ 261C.2 - 261C.4.

⁸⁹ Iowa Code §261C.5.



source, potentially rendering the pupil responsible for the additional funds incurred. If the pupil participating in postsecondary enrollment was open enrolled then the reimbursement amount is paid by the receiving district.⁹⁰

F. Glossary of Terms.

1. Additional Levy.

"Additional levy" means a property tax levy imposed at a rate determined by the Department of Management in a school district upon taxable real property located in the district. The levy is intended to raise revenues equal to the difference between the combined district cost and the foundation level.

2. Allowable Growth.

"Allowable growth" means the amount by which state cost per pupil and district cost per pupil will increase from one budget year to the next. A state percent of growth figure, established by the state pursuant to Iowa Code section 257.8, is multiplied by the previous year's state cost per pupil, and the result is added to the previous year's state and district cost per pupil figures to determine new state and district cost per pupil amounts.

3. State Foundation Aid.

"State foundation aid" represents the state's commitment to education finance. The state provides funding up to a specified percentage of the state cost per pupil, after imposition of the uniform levy. The percentage is contributed at two primary levels:

a. Regular and Special Education Program Foundation Level.

Funding per pupil is equalized at 87.5 percent of the state cost per pupil, less whatever amount a school district contributes from the uniform levy. The 87.5 percent level is also applicable to the portion of weighted enrollment that is additional enrollment because of special education. Districts which could be regarded as having a relatively lower assessed property valuation base will require a proportionately larger amount of state aid to reach the 87.5 percent level than will higher assessed valuation base districts, because the uniform levy will generate a smaller proportion of the district's per pupil cost.

b. Special Education Support Services. Special education support services, one of the classifications of services provided by an area education agency, is funded at 79 percent of the state cost per pupil, but with separate state and district cost per pupil calculations involved.

4. Uniform Levy.

"Uniform levy" means the property tax assessed on the taxable real property located in each school district at a uniform rate of \$5.40 per \$1,000 of assessed valuation. State foundation aid, when added to the amount generated by the uniform levy, is contributed up to the 87.5 percent foundation level.

⁹⁰ Iowa Code §261C.6, 282.18(7).



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5. **Weighted Enrollment.**

"Weighted enrollment" means counting a pupil at a value of greater or lesser than one when determining the number of enrolled pupils in a district for purpose of school financing, if the pupils are enrolled in a specified type of program. There are two primary forms:

a. Special Education Weighting. Special education students are weighted at a value greater than one to reflect the increased expense involved in providing a special education curriculum.

b. Supplementary Weighting. This type of weighted enrollment provides additional weighting for students enrolled in a program involving the sharing of one or more classes or teachers between districts, for at-risk programs and alternative schools, for school districts involved in a reorganization or dissolution, for school districts establishing regional academics, or for students enrolled in a non-English-speaking program.

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